

**Ban of Indonesia's Palm Oil Products to the European Union and Indonesia's  
Diplomacy Efforts**

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**Abstract.** The European Union (EU) has officially banned palm oil products as a biofuel material for its members gradually for environmental damage issues. This policy threatens the palm oil commodity and in turn it has a negative effect on Indonesia's economic security. The Indonesian side has carried out various resistances from diplomacy efforts, lawsuits to the World Trade Organization (WTO) to implementing export restriction policies. This study aims to analyze Indonesia's trade dispute with the European Union and its impact on Indonesia's palm oil products by using the concepts of public diplomacy and nation branding, economic security, and trade wars. The study used primary data in the form of expert interviews and it got support from secondary data in a kind of literature studies. It was processed with qualitative descriptive method. The study results show that the restrictions on nickel exports that Indonesia has implemented after the RED II prevails and the provisions in the RED II makes Indonesia's palm oil products difficult indicate a trade dispute between the two parties. The ban of the European Union to the palm oil also not purely bases on environmental motivations but rather to increase the demand for the EU's local vegetable oil market.

**Keywords:** economic security, environment, nation branding, trade wars, European Union

**Introduction**

The sector of manufacturing industry is one of the main commodities contributing to the large exports in Indonesia. For the non-oil and gas category, the sector of manufacturing industry has contributed 84.6% of total non-oil and gas exports or totaling US\$131,087 million for Indonesian exports in 2020 (Badan Pusat Statistik, 2021). Among the sector of manufacturing industry, the processed palm products including CPO (Crude Palm Oil) have an important role in non-oil exports. The CPO is the main commodity from the sector of manufacturing industry increasing by 18.43% in its export in 2020 if compared to 18.43% in 2019. It was the highest if compared to the commodities from other sectors such as coal (the mining sector decreasing by 23.33%) and coffee (the sector of agriculture decreasing by 7.24%) (Badan Pusat Statistik, 2021). However, currently the commodity of crude palm oil as the leading export is under threat due to the EU ban on crude palm oil import. Bhaskara, Putri, and Suwecawangsa (2020) stated that the European Union has implemented at least three non-tariff barriers for the commodity of CPO from Indonesia, i.e. in 2009, 2017, and 2019 accompanied by a black campaign. According to Rahayu and Sugianto (2020), the ban was issued through the RED policy with the environmental damage as the main narration.

Sally (2016) studied the European Union's main arguments for environmental and health issues. The processed palm oil is considered to have high saturated fat content and it is processed through poor processing which results in global warming and deforestation. Therefore, based on the European Union's ETS standards, Indonesia's palm oil products do not meet the standards because they are considered to produce carbon above the normal limits. Furthermore, Pratama (2019) stated that the European Union as a high income

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economics can make environmental issues as a priority by showing it to developing countries like Indonesia where the palm oil industry is important.

There are several allegations that environmental issues arise in relation to the European Union's own domestic factors. Pradhana (2020) found that there was a correlation between regional interests and domestic ones intertwined each other and having influence in determining a policy. The European Union's high demand for biofuels has led to dependence on palm oil energy. This triggered protests and pressure from other vegetable oil producing countries in the members of the European Union, particularly France as the largest vegetable oil producer. The fact of this one-sided interest shows any discrimination against palm oil products and it triggers resistance from Indonesia. It ultimately indicates a trade war between Indonesia and the European Union.

According to Pratama (2019), the trade war is indicated in a kind of Indonesia's resistance from a boycott with other boycott to declaring to the WTO regarding the European Union's policies that are considered discriminatory. In Indonesia's another resistance, it carries out economic diplomacy by utilizing international political networks to promote palm oil trade throughout the world as described by Qudsi et al. (2020). Moreover, Robertua (2019) stated that the issuance of the RED II by the European Union triggered resistance and counter-arguments from the Indonesian government, which stated that the policy was a political tool to protect local commodities and farmers of rapeseed and sunflower oil, as confirmed by the statement of the European Union's ambassador Guerend to Robertua (2019) in an interview. Mariatulkubtia (2020) explained the role of the WTO in resolving trade disputes, i.e. the function of Legal Liability as the adjusting transaction costs, and a provider of information and overcoming uncertainty between Indonesia and the European Union. Based on the study of Sylvana et al. (2020), there were any differences between the research results conducted by Indonesia and the European Union which can become evidence submitted by Indonesia to the WTO.

A number of strong responses Indonesia has taken because it considers that the European Union's policies have burdened and it has to be taken into account. The European Union has carried out various black campaigns and these have hampered the market of the palm oil products. As a response, Indonesia brings this conflict to the court and makes countermeasures against the European Union. This study will analyze the conditions of the trade war due to the policies and the environmental narration in the European Union's black campaign against Indonesia's palm oil products and their impact on the national economy.

## Literature Review

### Public Diplomacy and Nation Branding

Melissen (2005) considers that the public diplomacy is one of the concepts that is more likely to be contradicted because there is no consensus on the definition of the public diplomacy. Despite Melissen (2005) generally agrees that the public diplomacy is the participation of public and non-state actors in diplomacy activities, there is no agreement on how the actors should be involved, the state's role and how the concept should be applied. It gets approval from Yani and Lusiana (2018) because they see the difference of viewpoint on how the non-state role and actors in the public diplomacy whether these could be carried out top down or just bottom up

Based on the discourse, we see that the common thread of the discourses on the public diplomacy can be shown as the involvement of non-state actors in the diplomacy process whether they carry out the policies having been designed by the state previously or they provide input on the policies having been made by the state. In this matter, Gilboa in Indraswari and Hermawan (2015) saw that the formation of public opinion supporting the

fulfillment of the state's interests is one of the most obvious role in the public diplomacy and distinguishes it from the traditional diplomacy with the form of inter-government orientation.

Many concepts that have correlation with the public diplomacy are among others nation branding. It is one of the most prominent concepts. It was at least mentioned by Melissen (2005) and Indraswari and Hermawan (2015). The close relationship of the two concepts is the focus of study on the importance of developing public opinion that supports the fulfillment of a country's national interests. When the public diplomacy as mentioned by Melissen (2005), Yani and Lusiana (2018) as well as Indraswari and Hermawan (2015) mostly depends on the state role in the framework of diplomacy and foreign policy, the nation branding mentioned in the work of Anholt (2005) focuses on the marketing techniques in promoting an aspect of a country.

However, Melissen (2005) and Indraswari and Hermawan (2015) have different viewpoint. In this matter, Melissen (2005) considers that nation branding requires more complex coordination than public diplomacy. Otherwise, Indraswari and Hermawan (2015) see that the nation branding needs public diplomacy and vice versa. Departing from the different viewpoint, we see that the nation branding is a part of the public diplomacy aimed directly to influence public opinion in general.

Public diplomacy and nation branding in the research are used to see how the public opinion can be influenced as well as at the same time influence the policies of a country as well as an international organization on an issue. The assumption is that a policy of a country towards other countries will not work if there is not supported by strong public opinion as the basis of the policy making. In this matter, the study will focus on the two non-state actors who play their roles in developing public opinion as well as policies in relation to palm oil products from both Indonesia and the European Union.

### **Economic Security**

The concept of security in general with economic policy as one part of the concept is a concept that tends to be dynamic which continues to changes in relation to the development of phenomenon and science. The focus of security studies in the past frequently has revolved around a sense of security or freedom from fear caused by physical threat either at individual or state level (Buzan, 2008). As a result, the focus of security studies always relates to various types of threat in relation to military and politics. However, the end of the Cold War has opened new space for the emergence of various security fields and added to the complexity of the security studies.

The economic security is one of the security sectors mentioned by Buzan, Weaver, and De Wilde (1998) as the response of the security studies towards changes in the international system after the Cold War. In the same period, Kirshner (1998) also have opinion that the political economy will become so important in the security studies because there has been a shift in the main issues from politics and military to politics and economy. Moreover, Kirshner (1998) divides three main viewpoints in the security studies on the influence of economy to a country's security, i.e. classical viewpoint that directly emphasizes the relationship between economy and military power of a country; the modern viewpoint that places economy as a separate instrument where an action in the sector of economy will be retaliated to other economic actions; and neoclassic viewpoint that consider the interrelationship of economy to other sectors more broadly and is not only confined to the sector of military. The existence of the security interests becomes the basis for Indonesia to take firm policy steps to the European Union in order to protect palm oil products as a leading commodity that supports national economic security.

## Trade War

Amadeo (2021) states that it occurs when a country prevails a tariff or import quota to another country and the last country takes revenge in a kind of prevailing a trade protectionism in a similar way as conducted by the aforementioned country. As a result, it reduces the intensity of international trade activities. Moreover, in Kristiadi (2021) the restriction of import in the scope of trade war covers the ban of importing certain goods, increasing import duties on the goods, emphasizing the import of the goods with certain standards and so, the decision of the imported goods must pass additional certification tests. Therefore, it causes an economic conflict between countries involved in the scope of international trade activities. The retaliation action is carried out because the provisions of trade restriction are detrimental for one country and therefore, in order to secure its products and trade balance there are some retaliation actions for the loss received due to the trade policies carried out by a country.

There are three main points on the trade wars for Anggraeni (2019), i.e. inter-state economic conflict, increasing tariff of import duties as well as retaliation actions through the increase of tariff and import duties. Amadeo (2021) divides the impact of the trade wars in the short and long term. The trade wars occur when a country carries out any protection to its domestic industry and efforts of creating job opportunities. In the short term, with the protection action it is possible to have positive impact to a country's economy. The existence of the imposed trade tariff will have a great impact to domestic products because the prices will be cheaper and it will increase demand in the domestic market. With the increase it will create numerous job opportunities in the domestic level. However, instead of having positive impact in the short term, it definitely has a detrimental impact in the long term because it can suppress the economic growth of the two countries involved in the trade wars and trigger inflation in the process of increasing tariffs and import restrictions.

Concerning the implementation of tariffs and restrictions made by a country, according to Bosh (2004) it is not definitely forbidden. However, it does not mean that it can prevail freely because in the WTO laws and regulations on the implementation of tariffs and restrictions these must be agreed upon in the negotiation forum. Moreover, the imposition of tariffs and restrictions have some purposes among others: 1) As a source of income for a country. It is definitely felt particularly among developing countries if compared to developed countries because it has effects on the increase of a country's income, 2) Protecting domestic products in the domestic level. Because the policy prevails, there is competition between domestic and imported products. Due to the existence of the tariff policy, the prices of imported goods will be more expensive if compared to the domestic ones and therefore, it will increase the demand to the domestic products.

## Research Methods

In this research that analyzes the trade war as the impact of banning Indonesia's CPO products in European Union, the researchers use a qualitative approach. The qualitative approach makes deeper exploration of the research topic taken (Cresswell, 2009). The research exploration is carried out in the form of collecting the related data through literature studies in a kind of searching supporting sources that can support the research topic (Zeidd, 2004) and uses interview methods to get primary data in a kind of overview from experts on the research topic (Rachmawati, 2007). Therefore, specifically the analysis will be carried out descriptively in order to obtain overview on the ban of Indonesia's CPO products in the European Union and the dynamics of the trade war between Indonesia and the European Union.

## Research Results and Discussion

### Benefits of Palm Oil Products as Energy Source

Indonesia is being faced with energy crisis because its crude oil and natural gas reserves get thinner. The publication of National Energy Council concerning national energy study shows trend of reducing domestic crude oil energy production particularly crude oil. Crude oil production has been reducing from 364 million barrel in 2009 to 283 million barrel in 2018 in the period of 2009-2018 (Dewan Energi Nasional, 2019). Minister of Energy and Mineral Resources stated that Indonesia's crude oil reserves were just sufficient until 9.5 years again and natural gas reserves were only 19.9 million (Kementerian Energi dan Sumber Daya Mineral, 2021). Finally, coal reserves were estimated to fulfill the demand until 2096 (Databoks, 2018).

Population and economic growth have increased energy consumption in Indonesia. The limitation of fossil energy resources makes the government to switch to renewable energy in order to avoid energy crisis threats. Palm plants are an alternative energy from vegetable resources that has potential to become complementary energy. Palm plants produce vegetable oil which is mostly used for bioenergy amounting 5% of total palm oil production (Ritchie & Roser, 2021). Biofuel is fuel used as bioenergy made from biological processes (Supraningsih, 2012). One part of biofuel is biodiesel that can be derived from vegetable oil, animal fat or algae.

Among all plants producing biodiesel, i.e. coconut, Brazil nut and jatropha, palm is a type of the plants that has the most potential benefit for its high productivity. Each hectare of palm plants can produce 2.8 million ton of palm oil per year in average, the number is four higher than vegetable oil from sunflower and rapeseeds (0.6-0.7 tons) and 10-15 tons higher than total production from coconut and groundnut (Ritchie & Roser, 2021). Excessive Crude Palm Oil production makes it more efficient to be used as an alternative fuel, for example, for transportation needs, power plants and others

At least there are two ways to convert CPO into fuel as biodiesel. Firstly, CPO must be purified at first through factory processing before it is used as biofuel or vegetable oil. After going through the purification process, CPO is converted into methyl esters and can be used directly as biodiesel (Mekhilef et al., 2011). The second way is to mix the processed CPO products with diesel fuel with certain percentage ratio to be used as diesel fuel. The method of combining crude oil and the processed CPO products is called *envo diesel* (Mekhilef et al., 2011).

Biodiesel is used to replace diesel fuel. It can use biofuel from 100% of the CPO products (B100) or it is mixed with diesel fuel in a certain percentage of ratio, such as B20 (20% biodiesel, 80% diesel fuel) and B30 (30% biodiesel, 70% diesel fuel). In Indonesia itself, the use of CPO products as an alternative energy source for biodiesel has begun since 1991 after Palm Oil Research Center (PPKS) carried out the research and development. The research results indicate that every 1 tons of the CPO products produces 85% of biodiesel (Faridha et al., 2021). PPKS conducted the first trial of CPO-based biodiesel for agricultural machinery and transportation vehicles in 2001. At the end of 2004 the agency conducted a trial trip with the B10 Biodiesel Oil Palm (BMS) on the Medan-Jakarta route using trucks and cars.

The implementation of biofuels has officially begun since the government of President Susilo Bambang Yudhoyono through the Decree of the Director General of Oil and Gas No. 3675 K/24/DJM/2006 concerning Standards and Quality (Specifications) of Diesel Fuel Oil Types Marketed in the Domestic Level. The regulation states that diesel fuel is allowed to contain a maximum of 10% biodiesel (FAME). In practice, Pertamina sells diesel fuel with a mixture of 5% biodiesel in three dispensers (Faridha et al., 2021).

The Mandatory on the use of biodiesel as a diesel mixture was issued with the Minister of Energy and Mineral Resources Regulation Number 32 of 2008 concerning the Provision, Utilization and Trading of Biofuels as Other Fuels as a legal umbrella. The biofuel mandate applies to the micro sector, fishery, agriculture, transportation and public service (PSO); non-PSO transportation; power plants; as well as industrial and commercial sectors (Humas EBTKE, 2019). The Mandatory undergoes some changes due to the rules for biodiesel content, the latest of which is the Minister of Energy and Mineral Resources Regulation Number 12 of 2015 concerning the Third Amendment to the Regulation of the Minister of Energy and Mineral Resources number 32 of 2008 concerning the Provision, Utilization and Trading Administration of Biofuel as Other Fuels. The conversion has been carried out in several stages since April 2015 with the application of 15% biodiesel for all sectors except for power plants which apply 30% biodiesel. In January 2016 the implementation was increased to 20% for all sectors except power plants 30%. The implementation of 30% biodiesel or B30 in all sectors is targeted to run in the period of 2020 – 2025 (Humas EBTKE, 2019). Other countries that use CPO as biodiesel fuel include Malaysia. Malaysia implemented the National Biofuel Policy in 2006 as an effort to expand biodiesel through commercialization. The mandate applied by Malaysia at that time was biodiesel with the use of B5 fuel (Chin, 2011). As an European Union member country, Italy is known as a country that uses CPO as biodiesel fuel in its country. Italy is the third highest importing country of CPO products in the European Union. Around 80% of CPO is used for the needs of the technical industry, most of which is biodiesel and energy for production process (Kumar, n.d.)

### **Export of Indonesia's CPO to Europe**

Palm plant is one of the most important commodities owned by Indonesia. Palm oil production has increased per year when global market demands rise, particularly palm oil which has the potential as an alternative energy for biofuel fuels. Citing data obtained from GAPKI (Indonesian Palm Oil Association), around 70% of palm oil production was allocated to meet export needs, and 30% for domestic consumption in 2018 (Rahayu & Sugianto, 2020) and so, Indonesia makes palm oil as the leading export commodity. Palm oil products contributes a large amount to Indonesia's foreign exchange with its position as Indonesia's main export commodity. The country's foreign exchange value from palm oil exports throughout 2018 reached US\$20.54 billion, which is equivalent to more than IDR250 trillion (Rahayu & Sugianto, 2020). In addition to increasing the country's foreign exchange rate, it also has an impact on the growth of Indonesia's oil palm plantations. Total land area of palm plantations only reached 295 thousand hectares in 1980 but based on data from the Directorate General of Plantations the Ministry of Agriculture, the land area of palm plantations has increased and in one decade total land area of palm plantations was estimated at 114.68 million hectares in 2019 (Katadata, 2019), it increased almost 50 times of the land area used for the plantation.

The global market industrial demand on palm oil products reaches 80% in the food industry, 19% in the beauty or cosmetic industry, and the others are used to meet the needs in the biodiesel industry for renewable alternative energy (Sally, 2016). When observing the increasing demand of palm oil products in the global market, two countries that play an important role in fulfilling the products are Indonesia and Malaysia. These two countries are the largest palm oil producers in the world by contributing more than 80% of global palm oil needs (Erman, 2017). From the fact above it gets support with the demographic conditions and plantation land area owned by Indonesia, palm oil commodities have more value for this country. The potential of palm oil and the conditions of palm oil production are relatively quite significant and so it makes Indonesia dominant. It almost reaches 50% of total world

market demand and it makes big countries that have an interest in the need of palm oil as the main export destination for Indonesia's palm oil commodities.

The main destination countries for Indonesia's palm oil exports are among others the European Union member countries. High awareness on the importance of palm oil products as one of the main commodities has made the European Union member countries as the main export destination countries for Indonesia after India (GAPKI, 2018). Demand of palm oil among the European Union member countries is mostly used to meet needs in the industrial sectors such as food, cosmetics and biodiesel. Moreover, palm oil products have a very important position in the European Union member countries because it is one of the four types of vegetable oil consumed by European people, i.e. rapeseed oil, soybean oil, and sunflower oil and CPO (GAPKI, 2017). The European Union member countries fulfill the need of palm oil products by importing it from the largest palm oil producing countries, among others Indonesia and Malaysia. Moreover, for Indonesia itself, it was recorded, as in the report of CNBC that Indonesia's export activities have been carried out to 19 countries in the European Union member countries with a total export value of IDR39.81 trillion rupiah which represents the total value of Indonesia's exports as a whole in 2017 of 14.21% which is equivalent to with IDR280.21 trillion (Hanung, 2018).

However, the palm oil trade relationship between Indonesia and the European Union is colored with problems through the European Union's attitude of applying countervailing or compensation tariffs for Indonesian government with total subsidy rate of 8%-18% for the palm oil products. The European Union suspects that the Indonesian government provides subsidies to palm oil products and so the commodities in the European market become cheaper and more competitive. The organization argues that its actions are in accordance with the rules of the WTO, i.e. the GATT Agreement on Subsidies and Countervailing Duties which is in line with article VI of the 1994 GATT agreement. In fact it is very offensive to the Indonesian side. Particularly after the ratification of the Renewable Energy Directive (RED) I and the RED II, these state that the European Union would reduce or even eliminate the use of biofuels gradually until 2030 because palm oil-based biofuel is one of the commodities mentioned in the criteria of the High Risk Indirect Land Use Change. (Rina, 2019). Definitely this policy will disturb the performance of Indonesia's palm oil exports, particularly to the European Union member countries as Indonesia's main export destination countries.

### **Ban of CPO in Europe**

Totally there are five (5) reasons for the issuance of a tariff policy on the importation of palm oil and its derivative products in the European Union (Sidik, 2018) i.e.: Human Rights Violation which refers to the condition of farmers who are considered that their rights are not fulfilled, and employing children in the CPO industry which several countries use child labor in the production process who are not old enough to carry out the work, then there is corruption in the level of managers and those who are responsible to manage the CPO production, and finally in relation to environmental problems because there is deforestation and degradation of animal habitats around the palm plantation industry. The EU side takes environmental and social and Human Rights issues in strengthening the basis of the ban policy issued by the organization. The European Union also states that the regulations established are based on some researches conducted in the period of 2008–2015 which have noted that the palm oil production occurs on the land area that stores large amounts of carbon emissions and definitely it has a very large impact to the environment (Nugraha, 2019).

Regarding the environmental issues brought by the European Union, one point contained in the SDGs relates to efforts to realize the protection of ecosystem sustainability. The point becomes the basis that the European Union takes in which the organization claims

itself as a region that has commitment to the SDGs points. On the one hand, the European Union is a region that has an intense use of biofuel, in this case, i.e. palm oil in a great number. From the environmental viewpoint the palm oil industry is not in line with the organization's commitment to the SDGs. Therefore, the European Union has issued various steps, one of which is through a policy containing the imposition of tariffs on palm oil products imported to the market of the European Union member countries. This measure is implemented in the RED which is later revised to put the palm oil industry into a disadvantage position. The revision is contained in the RED II which removes palm oil as a biofuel used in the European Union member countries. In the RED, it states about the replacement of using fossil fuels with biofuels to achieve the target of climate improvement efforts in the period of 2020-2030 (European Union, 2008) which is then added regarding this matter in the form of criteria regarding what kind of biofuel can be used as fuel by removing palm oil from the biofuel category (German & Schoneveld, 2011). Palm oil does not meet the biofuel criteria made by the European Union because in the process it does not pay attention to environmental balances such as deforestation and so it produces carbon in high enough number in the industry. These arguments strengthen the reason for the European Union to abolish and even prohibit the use of CPO in the European Union member countries as a raw material for biofuel used by countries in the organization despite the countries need CPO products in great number.

Before the RED II was ratified, the dynamics of banning the importation of CPO to the European Union member countries was colored with a variety of triggering actions, such as the establishment of resolution on CPO and the coalition of some European Union member countries that makes the refusal campaign. It is definitely clear that the main driving force to issue the ban of importing CPO is regional or domestic interests from each member country in the European Union. A resolution with the title of the Resolution on Palm Oil and Deforestation on Rainforest was passed as a way to step the consumption of palm oil in the European Union in 2017. It is considered that palm oil industry contradicts with the vision of sustainable development initiated by the European Union. One of the points as the consideration is deforestation which refers to the illegal clearing of palm plantation land area and avoid the environment issues.

According to the report of the European Union Committee on Environment, Public Health and Food Security in (Konecna, 2017) it states that the establishment of palm plantation land area results in the drying up of rivers, soil erosion, massive forest fires, the drainage of peatlands and biodiversity ecosystems in threat and therefore, it does not fulfill the aspects of sustainable development and causes climate warming in the global level. Concerning the deforestation, the European Union takes some steps not to allow palm oil products to the market of the European Union because it is not parallel to the organization's vision such as the issuance of the Resolution on Palm Oil and Deforestation on Rainforest. The resolution contains the commitment to stop the use of palm oil and gradually to reduce the import from the CPO producing countries that are considered to have been carrying out such a deforestation. One of these countries is Indonesia that is frequently mentioned as the actor of deforestation in the resolution (Pratama, 2019).

In addition to the resolution, the ban of palm oil in the European Union gets triggered in a variety of protests and campaigns from environmental activists, politicians as well as NGOs in some countries such as Belgium, Germany, France, Italy, Portugal, Spain, Sweden and the Netherlands. These countries had carried out the campaign to boost the European Union Commission to stop the use of palm oil and ratify some rules and regulations on the case. The campaign carried out with the title of *#NotPalmInMyTank* issued some petitions by utilizing a variety of public facilities such as the famous platform in Europe, i.e. *SumOfUs*. The campaign also held some demonstrations in various capital cities of European countries, such

as Roma, Madrid, Paris and Berlin as well as in the front of the headquarter of the European Union Commission. With the campaign, activists definitely boost policy makers to terminate the use of palm oil among others because it has caused the extinction of many fauna species due to the deforestation (Transport and Environment, 2019). This is an illustration of the domestic impetus that lead to the implementation of the CPO ban in the European Union.

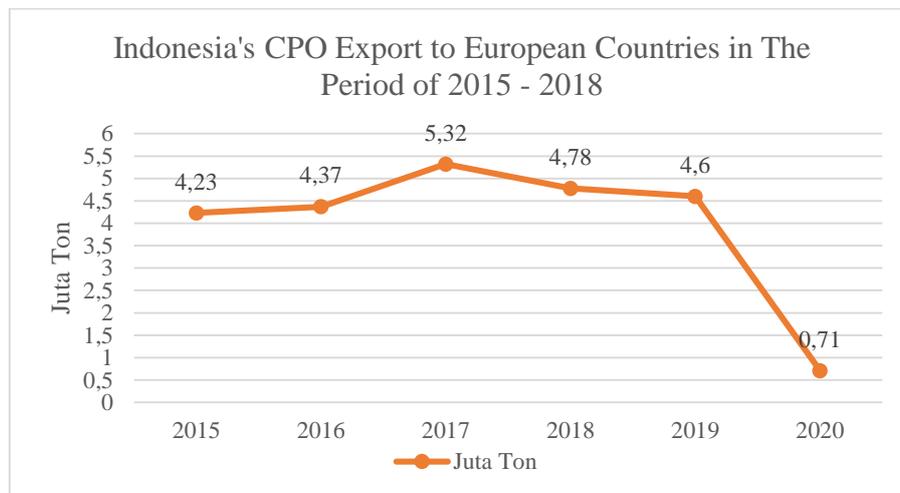
Reported from Hanung (2018), the discourse on the reduction of palm oil use in Europe had been carried out since November 30, 2016 and it was submitted by the European Union Commission to the parliament through the legislative proposal containing the provisions in the form of additions or changes to the points in the RED I document. The change of the proposed points relates to the use of biofuel which must be reduced gradually to 3.8% in 2030. However, when the revision was being held, there was the campaign *NotPalmInMyTank* initiated by some politicians, environmental activists as well as NGOs who boosted the ban of CPO and it must not wait the target of the RED II in 2030 for its urgency. (Rina, 2019). Furthermore, after going through various discussion process and relating to the proposal, the European Parliament's Energy Research and Industry Commission issued the policy recommendation on January 17, 2017. The initial proposal was reduced from 3.8% to 0% of palm oil use as biofuel starting in 2021 (Hanung, 2018). which makes the palm oil producing countries more difficult. burden and detrimental. After the plenary meeting and voting on the policy recommendation, finally the proposal to totally ban the use of palm oil in its contribution as biofuel was approved by 492 Members of Parliament. It was agreed in 2018 that the use of palm oil was reduced to 0%. In other words, palm oil will not be used again as a biofuel in the various sectors from 2021 in the European Union member countries.

### **Nuances of Trade War under the Guise of Environmental Issues in the European Union of Palm Oil Import Ban**

In the import ban of the CPO products, the environmental issues becomes main narration raised by the European Union. The agriculture of palm is considered as the main cause of deforestation in Southeast Asian countries and it threatens biodiversity and animals such as orangutan. In addition of environmental destruction, carbon emission generated from each hectare of palm field land becomes a problem. The European Commission reports that the carbon emission produced from each hectare of the field land converted to palm plantations amounts to 107 tons (European Commission, 2019). According to the Indonesia side, the basic argument of the European Union is just another way to discriminate the CPO products and protect their local vegetable oil commodities lost the competition with the CPO in the market. The reason refers to the regulations of the RED II that directs the European Union member countries to divert their investment from palm oil products to flowerseed and rapeseed (Suwarno, 2019; Arifin & Putri, 2019). It indicates that there are efforts from the European Union to promote some biofuel commodities and it gets grid of the CPO from the market competition.

The policy of the RED II applied by the European Union can threaten the CPO commodities that all this time become the leading non-oil and gas sector in Indonesia. The European Union contributed IDR39.81 trillion or equivalent to 14.21% of the total value of Indonesia's export in 2017 (Hanung, 2018). The drastic reduction occurred in 2020 due to the impact of the COVID-19 pandemic. Despite total export volume of Indonesia's CPO products to European Union member countries remained stable, Indonesia took the resistance steps to fight against the import ban. It is because the sector of agriculture and palm plantation industry has absorbed total employment of 16 million people in Indonesia (Liputan 6, 2021) and it contributed the biggest foreign exchange for the country totaling US\$20.54

billion or more than IDR250 trillion in the sector of CPO products, and therefore, the resistance of Indonesia is steps that must be taken to maintain its economic security.



**Figure 1. Indonesia's CPO Export to European Union Member Countries in the Period of 2015 – 2018**

Source: Processed from various sources

To maintain its palm plantation sector, Indonesia carries out a variety of diplomacy steps in order to raise the branding of palm oil products in the international level. Indonesia raised the European Union's palm oil import ban to the fourth ministerial meeting of the CPOCP on April 11, 2017. Indonesia and Malaysia as the biggest CPO producer countries in the world also stated their concern and disappointment to the European Union's attitude having discriminated their palm oil products through single certification requirements and otherwise, it did not apply similar rules to other biofuel products (Arifin & Putri, 2019). Bilaterally Indonesia carried out the diplomacy of Campaigning CPO Fair Trade 2017 to several countries of European Union member countries. The fair trade intended here is the treatment or concern for palm oil products as the only biofuel product that gets tight treatment and it does not prevail to other biofuel products from other plant types (Arifin & Putri, 2019). The bilateral diplomacy was directly led by Foreign Minister of the Republic of Indonesia Retno Marsudi. In her meeting with Belgium Foreign Minister Didier Reynders, Mrs. Retno Marsudi emphasized the black campaign issue applied by the European Union and she expected that the European Union immediately applied the fair trade to palm oil products. In her visit to Italian Foreign Minister Alfano, Mrs. Retno Marsudi also emphasized the fair trade and she urged that Italy should prevent discrimination to palm oil products. She expected that Italy as one of the biggest CPO importing countries would not be affected with the resolution of the European Union.

Another strategy carried out by Indonesia is to discuss the European Union's resolution in the forum of the Indonesia-European Union Comprehensive Economic Partnership Agreement (IEU CEPA) held on September 11-15, 2017 in Brussels. In the forum Indonesia tries to enter the narration that lead to the rebranding efforts on the sustainable palm oil. The main point that Indonesia proposes is among others the harmonization between the sustainable CPO standards from the European Union and the certification of the ISPO standards (*Indonesian Sustainable Palm Oil*) having been carried out in Indonesia right now (Arifin & Putri, 2019). Indonesia will improve the certification system of the ISPO and therefore, the labeling of the sustainable" term in the CPO products can comes opportunities to expand the CPO market in Europe (Arifin & Putri, 2019).

The rebranding efforts conducted by Indonesia is through public diplomacy which aims as white campaign for the CPO products. Indonesia visited some European Union member countries such as the Netherlands, Moscow, Germany, Switzerland and Vitakan. The activities held by Indonesia among others organized exhibitions, the joint researches, socialization and promotion in the exhibitions and festivals, held forums and seminars (Bhaskara, Putri, & Suwecawangsa, 2020). The public diplomacy was held in social media channel of *Twitter* by launching the account @SawitBaikID on September 17, 2019 and the use of the hashtag #SawitBaik launched by the government of Indonesia (Bhaskara, Putri, & Suwecawangsa, 2020).

In this matter, based on the interview with a resource person from the Ministry of Trade of the Republic of Indonesia, he said that Indonesia had made efforts to implement the ISPO standards (*Indonesian Sustainable Palm Oil*). Through the implementation of ISPO, the government of Indonesia prevails a certification system and it can help increase the competitiveness of palm oil products and their derivatives in the world export markets including the European Union's market, which currently pays great attention to the sustainability aspect. With the certification system, it will provide guarantee to consumers of Indonesia's palm oil products that the products they consume are safe, and have taken into account various aspects in accordance with the implementation of the SDGs. In addition to the implementation of ISPO, a number of businesspeople and oil palm farmers have also tried to improve the management of palm oil in order to meet the European Union standards.

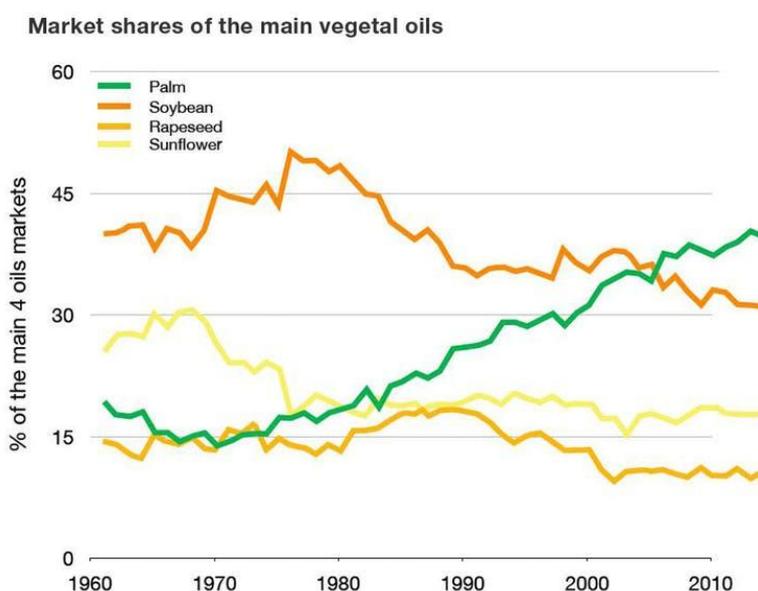
It is also able to provide answer to the Europe Union's argument which is considered to be discriminating against Indonesia's leading export commodity. It is because Indonesia continues to pursue the guidelines contained in the RED. When making the export of palm oil as an instrument of nation branding, particularly in the scope of international trade, Indonesia carries out political actions, or builds bilateral cooperations with several countries which can make Indonesian palm oil products the best in the international market. Indonesia also creates palm oil branding by making a Comprehensive Economic Partnership Agreement with the countries of EFTA (European Free Trade Association) consisting of Switzerland, Iceland, Liechtenstein, and Norway. It is expected that these countries' acceptance of CPO from Indonesia will change the EU's perception and viewpoint.

The European Union's RED policy more directs to a trade war than a struggle to raise environmental issues. This opinion was reinforced by President Joko Widodo in his statement on his *Twitter* account which called the ban of CPO import as a form of trade war because palm oil price is lower than sunflower seed oil produced by European Union countries. (Nathalia, 2020). The trade war can be seen from Indonesia's response. Despite the volume of Indonesia's exports to Europe still tends to be stable, Indonesia has taken steps to respond to the ban imposed by the European Union. Indonesia finally implements a policy of limiting nickel exports after Europe approves the RED II. These restrictions come into effect on January 1, 2020. Indonesia restricts nickel export through the Minister of Energy and Mineral Resources Regulation Number 11 of 2019 concerning the Second Amendment to the Regulation of the Minister of Energy and Mineral Resources Number 25 of 2018 concerning Mineral and Coal Mining Concessions. As an industrial area, Europe needs nickel as a raw material for their steel industry and other types of metal industry. The European Union which does not accept Indonesia's policy which is considered a threat to local industries, has filed two lawsuits over Indonesia's export restrictions to the WTO's Dispute Settlement Body. The first lawsuit was filed on November 22, 2019 with the agenda of requesting consultations to the WTO as an expression of protest against export restrictions and additional requirements on easing export bans. The second lawsuit was filed on February 22, 2021, asking for the DS 592-Measures Relating to Raw Materials dispute panel to be formed. In fact, the volume of

nickel that has been imported by the EU from Indonesia is not large in the amount (Prayoga, 2021).

It should also be noted that before the European Union, Indonesia had already sued the organization concerning the RED II policy to the WTO's Dispute Settlement Body. The lawsuit was filed on 9 December 2019 through the Permanent Mission of the Republic of Indonesia (PTRI) located in Geneva, Switzerland. The lawsuit has a schedule for Consultation as an initial stage (Kementerian Perdagangan, 2019). From the description above, the implementation of the RED II is a kind of protectionism against their local vegetable oil commodities. After the RED II is implemented, Indonesia applies the ban of exporting raw nickel products. The permitted export of nickel is those that have been processed to get value added from the Indonesia's nickel products. The two parties indicates that there is a trade dispute. It does not only defend their own attitude upholding the values of environmental sustainability but also it has directed to such as trade war. The rules in the RED II contain almost all indicators of the import restrictions within the scope of the trade war, i.e the ban of entering CPO products, and it emphasizes that importation of CPO products must pass a certain standard (in this matter the ILUC), the ILUC as a single certification which becomes the European Union standardization.

According to Khalil Hegarty (2018) there are the pressure factors from local vegetable oil farmers and so, the European Union's policy can prevent the CPO products from entering their market. Local vegetable products such as rapeseed and sunflower are definitely less competitive if compared to the CPO prices. Trend of market demand to palm oil indicates to increase significantly if compared to other vegetable oil products which definitely drop (Roda, 2019).



**Figure 2. Market demand to vegetable oils**

Source: Roda (2019)

The gradual implementation of the RED and black campaign in the form of environmental issues have an impact on CPO products. Although the total palm oil market is relatively stable and tends to increase, the demand for derivative palm products for food products has decreased by a third in the period of 2010–2014 (Sapp, 2016). It definitely relates to the European Union's consumers who tend to be sensitive to environmental issues and the stereotype of palm plant as the cause of rainforest destruction. The labeling of "palm

oil free" on various products also makes the European Union community more selective because they do not want their activities to indirectly support the destruction of nature. Meanwhile, domestic consumption for local commodities such as rapeseed oil and sunflower seeds tends to show an increasing trend of around 4.43% (Index Mundi, n.d.) and 3.18% (Index Mundi, n.d.) in the period of 1999–2021.

The European Union's CBI itself states that there is an increase in the demand of vegetable oil from sunflower seed by 2% per year. It gets influence from the issues in relation to palm oil products, i.e. environment issues and poor production performance processes. The stigma of palm oil as the main crop causing the deforestation of rainforests in Southeast Asia and poor working conditions (CBI EU, 2016). As a result, sunflower seed oil has become the prima donna in replacing CPO as a mixed ingredient in product content, as conducted by the giant company Lays (CBI EU, 2016). Another giant company, Casino as the large-scale supermarket from France definitely advertises non-palm oil products in commercial broadcasts on television. According to the European Union's CBI, this phenomenon follows the high negative viewpoint of people in French and Belgium towards palm oil.

Therefore, it is absolutely natural that this economic conflict is referred to as a trade war. The European Union started the import restrictions and it does not relate to the European Union's concern on environmental issues but rather than because it is the motives of local business interests. Environmental issues are a mask used by the European Union to cover their political economy motives. In fact, France, which has a high stigma on palm oil, is one of the largest sunflower seed oil producing countries in the European Union member countries. After the restrictions on palm oil, the level of EU consumption of sunflower seed oil has increased as well. Therefore, there is an interest in protecting local vegetable oil commodities which are difficult to compete with CPO as an imported vegetable oil product which is cheaper and versatile.

### **Conclusion**

The European Union's ban to Indonesia's palm oil products is a serious issue that Indonesia has to encounter. The RED policies that the European Union has issued is a trade war and it is not only considered as environmental conservation issues but also it contains interests to protect the European Union's biofuel products because its popularity is far under Indonesia's palm oil products. As a region of the countries with high income economy, the European Union tried to make pressure on developing countries like Indonesia through the narration of environmental issues as outlined in the dark campaign and foreign policies. In fact, the data show that palm is the most efficient plant with potential benefits due to the productivity of more than four (4) times if compared to oil from sunflower and rapeseed and 10-15 times more productive if compared to coconut oil and groundnut. It indicates that potential deforestation due to land clearing for palm plants is definitely lower than that from other plants producing vegetable oil.

It has triggered resistance from Indonesia and it brings the trade issue as a dispute to the World Trade Organization (WTO). Moreover, the provisions of the RED II also contains almost all indicators of import restriction. In other words, it indicates the efforts of a trade war, i.e. the ban of the imported CPO products, the implementation of the special standards, i.e. the ILUC and the obligation of the imported CPO product to have passed the ILUC as a single certification.

The trade dispute in the policy of banning the palm oil products has impact on the reduction of the CPO popularity in the market and it also influences Indonesia's economic security. However, in general the market demand to the palm oil products indicates a stable figure. However, there is a significant reduction to the demand of the palm oil products as an ingredient for processed household consumption products for cosmetics and food. It occurs

because household products with the palm oil free label grow fast and the palm oil products is stigmatized as the cause of environmental destruction. It has been embedded in the mindset of the EU community. A number of giant companies in the European Union have also replaced raw materials with vegetable oils other than CPO. This condition shows that the European Union has interests in the RED policy to save local vegetable oil commodities which are difficult to compete with CPO.

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